

DOCUMENT RESUME

04684 - [B0064949]

Automotive Tire Distribution: Dollars Can Be Saved. LCD-77-235; B-159200. January 4, 1978. 4 pp.

Report to Secretary, Department of Defense; by Robert G. Rothwell (for Fred J. Shafer, Director, Logistics and Communications Div.).

Issue Area: Facilities and Material Management (700).

Contact: Logistics and Communications Div.

Budget Function: National Defense: Department of Defense - Military (except procurement & contracts) (051).

Organization Concerned: General Services Administration; Department of the Army: Army Tank-Automotive Materiel Readiness Command, Warren, MI.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.

The Government operates a fleet of more than 420,000 commercial passenger cars and trucks and spends over \$29 billion each year for about 716,000 new replacement tires. Because tires represent a significant part of the millions spent to operate and maintain these vehicles, an examination was conducted of the Department of Defense's (DOD's) and the General Services Administration's (GSA's) tire management policies and practices relating to the storage and distribution of new tires.

Findings/Conclusions: DOD's central management and distribution of automotive tires has been plagued with problems, including high operating costs and slow response to customer needs. Although current DOD policy encourages military users to reduce operation and support costs by buying more commercially available items and using commercial distribution networks, military activities are still required to use the DOD system for tires centrally managed and distributed through the supply depots. The DOD system of purchasing and centrally stocking and distributing tires that are available commercially on the open market is no longer cost effective and should be discontinued. DOD's requirements for commercial tires can be met through GSA's Federal Supply Schedule System and direct local purchase at less cost to the Government and quicker response to customer needs.

Recommendations: DOD should discontinue stocking tires that are available commercially in order to reduce the high cost of distributing tires, provide more timely services, and comply with the policy of generally using commercial supply sources.

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

04684

B-15920C

JAN 4 1978

The Honorable  
The Secretary of Defense

Dear Mr. Secretary:

The U.S. Government operates a fleet of more than 420,000 commercial passenger cars and trucks. Each year the Government spends over \$29 million for about 716,000 new replacement tires.

Because tires represent a significant part of the millions spent to operate and maintain these vehicles we examined the Department of Defense's (DOD's) and the General Services Administration's (GSA's) tire management policies and practices relating to the storage and distribution of new tires. Our review covered selected field activities in each of the military services and the Tank Automotive Materiel Readiness Command (TARCOM).

We found that DOD's central management and distribution of automotive tires has been plagued with problems, including high operating costs and slow response to customer needs. Although current DOD policies encourage military users to reduce operation and support costs by using more commercially available items and using commercial distribution networks, military activities are still required to use a separate system for tires centrally managed and distributed through military supply depots. The GSA Federal Supply Schedule System and direct purchase can provide DOD with an effective alternative which uses commercial tire distribution channels.

COMMERCIALLY AVAILABLE TIRES:  
A DUAL MANAGEMENT SYSTEM

Replacement automotive tires are bought and distributed to Federal agencies through a dual management system operated by GSA and DOD. Under GSA's management, the Federal Supply Service negotiates, through competitive bidding, discount price contracts each year with various tire companies. These are published in nationwide pricing schedules for civilian and military agencies to use in obtaining tires from designated tire dealers and tire manufacturers. For 1976 GSA negotiated prices with 13 tire companies for 418 different tire sizes and tread designs.

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On the other hand DOD stores and distributes tires exclusively to military customers through a centralized procurement, storage, and distribution system. TARCOM operates as the single tire manager for all the military services.

Centralized procurement and supply management has long been DOD's method of fulfilling the tire needs of military agencies. The centralized system was designed to take advantage of large quantity buys at prices more favorable than those on the open market and to establish materiel stockpiles to meet peacetime and war reserve requirements. However, the high operating costs of DOD's tire distribution system more than offset the price advantage savings expected from a centralized supply system. In addition, because of lengthy waiting periods for requisitioned tires many customers obtain some of their tires direct from commercial sources and maintain inventories ranging up to 154 days.

CENTRAL MANAGEMENT COSTS  
OFFSET UNIT-PRICE SAVINGS

Centrally stocking commercially available tires can be justified provided the annual issue activity and the unit-price savings are sufficient to offset overhead costs. However our analyses showed that DOD's tire inventory turned over only 1.3 times a year. TARCOM officials estimated their item management and inventory holding costs to be \$12.1 million or about 58 percent of acquisition costs.

For 1976, excluding war reserves, DOD had an average inventory of 463,100 tires valued at \$26.5 million. The inventory turnover rate of 1.3 is about one-third the general tire industry standard of 4 times a year. TARCOM officials said low inventory turnover was due in part to large-quantity buys to take advantage of discount prices and maintenance of safety levels to prevent out-of-stock situations. However, we found that discount prices were more than offset by operating costs. Also, out-of-stock situations did occur and contributed to the high operating costs.

Comparing the price--which includes item management costs--a DOD customer paid TARCOM for a tire with the same tire purchased from a GSA contract supplier disclosed that the GSA prices were lower on 6 of 10 commonly used tires. Moreover, when the prices were adjusted to include DOD's inventory holding cost and GSA's cost of developing the supply schedules, the GSA prices were lower on all 10 of the tires sampled. Although purchase prices are generally higher for direct procurement actions, DOD's costs to purchase, manage, store, and distribute commercially available tires more than offset the higher purchase prices.

Distribution costs have been further increased by out-of-stock situations. An examination of Army reports on tire shipments for the last 6 months of 1976 showed 2,893 shipments were made to customers outside a depot's service area. According to TARCUM officials, the need for these shipments arose from problems in controlling stock levels because of inconsistent demands. They said depots are stocked based on a 2-year demand history and when new customers requisition tires, a depot may run out of stock. As a result, more remote depots may have to fill requisitions for the depot that is out of stock.

In addition we also found that some out-of-area shipments were due to errors in TARCUM's computer codes for installation addresses which resulted in shipments being made from the wrong depot. TARCUM officials corrected the codes and have subsequently changed the entire computer system to more effectively control shipments.

CENTRAL MANAGEMENT NOT RESPONSIVE  
TO CUSTOMER NEEDS

The lack of distribution responsiveness has led many customers to circumvent the DOD tire supply system. We found that all of the military activities visited purchased some of their tires direct from commercial sources. They found that they only needed operating inventory levels of 30 days or less for tires available from GSA contract supply sources but for tires purchased through the Army's centralized system they felt it necessary to maintain inventories ranging to 154 days.

Among the military activities visited the Navy preferred to obtain tires from local tire dealers instead of waiting long periods to get tires from a central depot. The Air Force preferred to get tires from GSA because of better service and lower prices at many times. The Army activities on the other hand, stated they had no problems with the DOD tire supply system but they were maintaining large inventory levels at local activities.

ALTERNATIVE TO HIGH OPERATING  
COSTS AND SLOW RESPONSE

The GSA Federal Supply Schedule System can provide DOD with an effective alternative to high operating costs and slow customer response. GSA's system relies on commercial tire dealers and manufacturers to furnish tires direct to customers at discount prices. Prior to July 1975 GSA also centrally stocked and distributed tires. Improved responsiveness to customers was cited by GSA as a major reason for changing their supply system for tires.

DOD tire users also like the GSA system. According to GSA, its biggest customer by far is DOD. We found that GSA was supplying tires to military agencies at a lower cost to the Government than DOD. Also, GSA's contract supply system is more responsive to a customer's needs.

#### CONCLUSIONS AND RECOMMENDATIONS

We believe the DOD system of purchasing and centrally stocking and distributing tires that are available commercially on the open market is no longer cost effective and should be discontinued. DOD's requirements for commercial tires can be met through GSA's Federal Supply Schedule System and direct local purchase at less cost to the Government and quicker response to customer needs.

To reduce the high cost of distributing tires, provide more timely service, and comply with the policy of generally using commercial supply sources, we recommend that DOD discontinue stocking tires that are available commercially.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Acting Director, Office of Management and Budget; the Chairmen, Senate and House Committees on Appropriations and Armed Services; the Chairman, Senate Committee on Governmental Affairs; the Chairman, House Committee on Government Operations; and the Secretaries of the Army, Navy, and Air Force; and the Administrator of General Services.

Sincerely yours,

  
for F. J. Shafer  
Director